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SUBJECT: HK Market Report, March 30: Trade Stats Drive Insecurity

¶1. Summary: February trade statistics reflected Hong Kong's worst monthly performance since the 1950s. Li & Fung Managing Director William Fung expressed worries about growing trade protectionism in the U.S., but Cheung Kong Group Chairman Li Ka-shing was more optimistic, expecting the U.S. and EU markets would improve in April and May as inventories are depleted. Hong Kong Chief Executive Donald Tsang and Financial Secretary John Tsang reassured Hong Kong residents after Beijing announced its decision to turn Shanghai into an international financial and shipping center by 2020. Interest rates remained low as the Hang Seng Index gained 8 percent last week; the Hang Seng gave back 4.7 percent in Monday trading. End Summary.

Hong Kong's February Exports Down 23 Percent

¶2. Trade figures released by the Census and Statistics Department on Thursday March 26 showed Hong Kong's total February exports, including both domestic exports and re-exports, plunged 23 percent from a year ago. Three Chinese dailies, Sing Tao, Wen Wei Po and Hong Kong Commercial Daily, reported that the fall in exports in February was the sharpest decrease since the mid-1950s. Hong Kong's exports to the U.S. in February fell by over one-third, down 36.7 percent from a year ago, while exports to Japan dropped over 24 percent, and shipments to China fell 14.1 percent. Even after combining January and February statistics to mitigate the effects of the Chinese New Year holiday, Hong Kong's export trade still fell by 22.4 percent from a year ago.

¶3. Hong Kong's import trade fared no better, dropping 22.8 percent in the first two months of 2009. Shipments to Hong Kong's top three markets, China, the U.S., and Japan, recorded decreases of 25.8 percent, 19.6 percent and 9.9 percent, respectively, over January and February. A Hong Kong government spokesman said the "sharp fall" in Hong Kong's exports in the first two months was not unique, as countries in the region also recorded 20-40 percent decreases in their export trade.

Protectionist Worries?

¶4. William Fung, Managing Director of the Li & Fung Group, told the press on March 25 that many customers have not placed their normal spring orders because they delayed fourth-quarter shipments to the first quarter of this year. Fung blamed the downturn on the loss of U.S. retailer confidence in the wake of the Lehman Bros. bankruptcy. Li & Fung, a key trading firm in Hong Kong with interests in clothes, toys, and consumer goods, reported a 21 percent drop in profits for 2008. Fung worried that trade protectionism would limit his firm's access to the U.S. market.

Or Tempered Optimism?

¶5. On the other hand, Cheung Kong Holdings and Hutchison Whampoa Chairman Li Ka-shing is optimistic about the rapid recovery of the global economy, despite Cheung Kong and Hutchison Whampoa 2008 profits dropping by 44 percent and 42 percent, respectively. Li told the press on March 26 that inventories in the U.S. and EU

markets have been drawn down, providing room for both Hong Kong and mainland China to see a trade rebound in coming months. Hong Kong Shipping Council Executive Director Sunny Ho told the Sing Tao Daily March 27 that local bankers have started to provide credit to the factories again. Some manufacturers have been able to get as much as half of their pre-September 2008 credit lines (issued before September 2008) back again.

#### Local responses to PBOC Governor Zhou's SDR Proposal

16. In a March 26 editorial, pro-Beijing daily Wen Wei Po said that recent events show China is willing to participate in and promote the reform of the international monetary system. Wen Wei Po opined that PBOC Governor Zhou Xiaochuan's proposal to expand the role of IMF SDRs would put pressure on the U.S. Federal Reserve to be cautious about increasing the supply of U.S. dollars. An exclusive report from Ming Pao's Beijing correspondent quoted U.S. Government sources as saying that the U.S. has agreed to expand the SDR system and will support Chinese moves to strengthen the Renminbi's international status, particularly encouraging use of Renminbi as a settlement currency in the Asian trade.

#### Is Shanghai a threat to Hong Kong?

17. Chief Executive Donald Tsang and Financial Secretary John Tsang told the Hong Kong people not to worry about the State Council announcement that Shanghai will be developed into an international finance and shipping center by 2020. A big country like China could afford to have two international finance centers, said CE Tsang. Executive Council member Professor Lawrence Lau said the Central Government's decision was not a surprise, as China will eventually have to allow Renminbi convertibility. Hong Kong will then lose

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some of its competitive advantages vis-à-vis Shanghai. Lau said Hong Kong and Shanghai should focus on providing different services to their natural hinterlands.

#### Rates and Returns

18. HIBOR remained very low and as Hong Kong dollar moved toward the upper peg band of HKD 7.75/USD as equity investors continued buying Hong Kong stocks. Overnight HIBOR, as quoted by Hang Seng Bank on March 27 was 0.08 percent, one-week borrowing was 0.20 percent, one-month ended the week at 0.3 percent, with three-month lending at 0.88 percent and six months at 1.18 percent. The Hang Seng Index closed at 14119.50 on Friday, up 10.52 points or 0.08 percent with a daily trade of HKD 58.9 billion. For the week, the market was up 8 percent, with average daily trading of HKD 59.2 billion as investors welcomed both the U.S. Treasury plan to buy toxic assets and the positive response in other markets around the world. Local analysts expected a correction when the market fully digests the U.S. Treasury's plan and on Monday, March 30, they got what they were looking for as the Hang Seng dropped 663 points or 4.7 percent.  
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